Memorandum for:

3 August 1982 [redacted]

[redacted]

Per your request, on 26 July I telephoned our comments on the Department of Agriculture's SIG paper on US-EC relations to Joe O'Mara, USDA. My comments were coordinated with the Agriculture Trade Branch, OGI.

[redacted]

Chief, Economic Issues Branch
European Issues Division

Not referred to USDA. Waiver applies.

Director,

E U R A

Office of European Analysis

EXECUTIVE SECRETARIAT

Routing Slip

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Remarks:

Executive Secretary

7/26/82

Date

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DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

JUL 23 1982

TO: The Group on US-EC Relations

FROM: Department of Agriculture

SUBJECT: Transmittal of Agricultural Paper for the SIG on US-EC Relations

Attached is the agricultural paper for the SIG. Written and telephone comments should be directed to Joe O'Mara, Room 5506 South Building, 382-1340, by noon Monday, July 26.

Attachment

B-223B

Options Paper: U.S.-EC Agricultural Trade

Issue: This country's agricultural problems with Europe have been developing for 20 years. How we respond will affect U.S. economic interests for many years to come. We are at a decision point now — a time to deal positively with a question that stands clearly apart from other issues introduced by the Europeans. American agriculture has a vital interest in an open and expanding trading world. This long-term objective is at issue because of aggressive and disruptive export policies of the European Community.

EC Position: The European Community contends that the Common Agricultural Policy (CAP) is integral to European unity and therefore is inviolate. The Europeans view U.S. objections to their subsidized export policy as an attempt to destroy the CAP. Brussels has shown no willingness to be more flexible even though there is considerable difference within the Community with the direction the CAP has been taking in recent years. France is the strongest advocate of EC inflexibility.

Current U.S. Policy: Current U.S. policy approved by the Trade Policy Committee (TPC) last November embodies a comprehensive strategy to deflect the EC from its expansive export policy; to press the Community to undertake meaningful reform of the CAP; and to preserve traditional U.S. access to the EC market by taking a vigorous stance against any new protectionist measures.

Options:

Option I: Avoid further confrontation and accept whatever concessions can be obtained in exchange for our acquiescence in the Common Export Policy. This would eliminate a major irritant in U.S.-European relations. It would also be painful for U.S. agriculture and costly to the U.S. economy in the loss of agricultural markets overseas.

Option 2: Move quietly but decisively to compete directly with the Community's subsidized exports — to make the EC pay a high price for its Common Export Policy. One possibility might be the export of CCC dairy stocks at subsidized prices. Another might be to exclude from P.L. 480 usual marketing requirements in those countries where the EC is subsidizing agricultural exports and to buy down interest on CCC credits.

Recommendation: Option 2 is recommended because the U.S.-EC agricultural trade issue is now at a crisis point. Moral persuasion and GATT petitions promise little or no progress, and further delay will only harden the EC system into patterns already established. A new wave of European complaints should not be allowed to obscure the fact that we are now at a watershed where the future of world agricultural trade could be altered fundamentally.

Direct head-to-head competition could be very expensive for the European Community without great cost to the United States. It would also create an incentive for other exporting countries, Canada and Australia for example, to join with the United States in pushing for a resolution of the EC problem.

Discussion

We are at an impasse with the Europeans. After intensive U.S. effort in the GATT and through bilateral discussions, the Europeans show no sign of responding. Instead they are institutionalizing these policies by adjusting domestic prices upward in the face of world market declines and by seeking long-term supply agreements with customer countries.

The EC problem in agriculture is long-standing and fundamental. The U.S. has complained since 1962, but it is only in the past two years that the EC has become a net exporter competing directly with the U.S. by means of subsidy. The EC became a net exporter of grain last year. It has doubled its sugar exports in 4 years. It is the second largest exporter of poultry and of beef and veal — all a result of export subsidies. At the current rate of expansion, the EC will surpass the U.S. in value of agricultural exports within 2-3 years.

The EC issue is now critical because any delay will tend to extend, solidify, and legitimize EC policies.

The United States has met with the EC repeatedly at the Cabinet level over the past 15 months, with State, Commerce, Agriculture, and USTR working in close cooperation. The U.S. has six Section 301 cases in the GATT seeking relief from unfair trade practices. It is clear, however, that persuasion and legal recourse have reached a point of diminishing returns. T he United States must now decide on its next step — whether to act decisively in its own interest or to accept a failure that will be with us for a long time.

The GATT Ministerial in November offers the potential for rule changes that would make it more difficult for the EC to justify export subsidies. However, needed support from other countries could be obtained only through decisive action to make plain the U.S. determination to effect changes in the international trade system. If the U.S. is not prepared to take strong action on agricultural issues it would be preferable to avoid any U.S. participation in agricultural discussions at the GATT Ministerial.

Non-farm support would be needed. The subsidized export of food will be politically acceptable in the United States only if there is general understanding that this is in the overall public interest. The strategy should be to dramatize the impact on non-farm employment resulting from an increase in exports, particularly of high-value products. Forty percent of the export value of meat and 80 percent of the export value of cheese go to create jobs and profits in the processing industries.

The United States has been badly outgunned the past decade in the export of high-value products, those that create additional jobs in processing, milling, refining, packaging, and special handling. The U.S. has only 10 percent of the world's high-value trade, although it dominates trade volume with 39 percent of the world's tonnage. If we had the same share of the world's high value trade that we had in 1970, we would now have an additional $9 billion in high-value exports and an additional 350,000 Americans employed in proocessing, marketing, and handling.

The greatest single obstacle to expansion in this trade is the European Community, which concentrates 60 percent of its exports in highly processed products—all produced and exported under subsidy. U.S. poultry producers, no matter how efficient, cannot compete against EC product that enters the Middle East with a subsidy of 12 to 13 cents a pound (or whatever it takes to move it).

Resolution of these issues will contribute directly to U.S. nonfarm employment, as well as to farm income, for many years to come. Failure, on the other hand, would mean long-term acceptance of an EC farm and trade policy that exports its problems while accepting few or no obligations to the world trade system.